RioCan Real Estate Investment Trust Is a Great Dividend Stock

Description

Despite being in the best shape of its life, investors have been leaving **RioCan Real Estate Investment Trust** (TSX:REI.UN), pushing shares of the stock down for the past six months. However, there are many reasons why I believe RioCan is a fantastic investment and is well worth considering for those that are hungry for exposure to real estate and, more importantly, lucrative dividends.

Debt

One of the likely reasons why RioCan has been trading down since July is because REITs tend to carry significant debt. Should the U.S. Federal Reserve increase interest rates in 2017, this could increase costs for RioCan, cutting into its earnings.

Fortunately, I'm not all that concerned about this primarily because RioCan is not carrying nearly as much debt as it used to. At the end of Q3 2015, RioCan had a leverage ratio of 46.1%. Fast forward to the end of Q3 2016, and that had been cut to 39.6%–a company best.

It was able to achieve this in part because it had sold its portfolio of U.S. properties, which it had acquired during the Financial Crisis. With the $1.2 billion in net proceeds, the company was able to hack away a significant amount of debt, so if interest rates go up, they won't hurt the company as much. I'm not concerned at all about debt for RioCan.

Operations

On the operations front, the company is firing on all cylinders. Its Q3 operating income increased by 9.2% year over year to $178 million. And its operating funds from operations increased by 16% to $131 million. One thing that could be spooking investors is the fact that its total network operating funds from operations dropped by 6.7%, but that's because it sold its U.S. operation. I would trade a temporary 6.7% drop in operating funds for $1.2 billion any day.

A big reason for this increase in income is because RioCan pushed its committed occupancy rate to 95.3% from 93.2% a year earlier. Even one basis point moves in its occupancy rate can have a serious impact on operating incomes, so a 2.1% improvement is amazing. And it increased its same-store net operating income by 1.1%, so it's making more from its tenants.

Growth

There are a few ways RioCan can grow. The first is its development portfolio, which will add 3.3 million square feet to its total assets. As this comes online, I expect to see the operating funds continue to push higher.

But what interests me more is its investment in residential property. Normally, I believe a company should focus on what it knows, which, in RioCan's case, is retail. However, it already owns the land and buildings in highly lucrative areas. Because of that, it plans to build as many as 10,000 residential units on top of its malls. This is a lower-cost way of diversifying income, but, more importantly, it increases foot traffic to RioCan's tenants, which in turn allows it to increase the cost to lease space.

Dividend

This all leads to the ultimate reason to buy RioCan, irrespective of the drop its experienced. It currently pays a 5.27% yield, which is 11.7 cents per month. And its payout ratio over a rolling 12-month period is 90%, which is high, but it's slowly dropping. And so long as growth continues, I have little concern about this yield staying where it is.

If you're looking for dividend income, a monthly distribution from RioCan is one of the best ways to get it.

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